Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/12**

Paper 1 Multiple Choice (Core) **October/November 2014**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

9482649593

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
DO **NOT** WRITE IN ANY BARCODES.

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **14** printed pages and **2** blank pages.

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1 Which statement about the problem of scarcity is correct?

A Continually rising productivity will increase output and solve scarcity.

B Future inventions will introduce new products that remove scarcity.

C Government printing of money will raise incomes and eliminate scarcity.

D Human nature will make the solution of scarcity impossible.

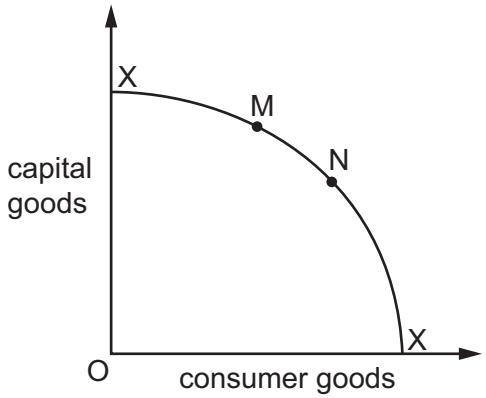
2 A firm is considering whether to buy a piece of capital equipment which will cost $2000. It estimates that the equipment will last for two years. The alternative is to lend the money to a finance company at a compound rate of interest of 5%.

What is the minimum increase in revenue the firm must expect to make it worthwhile buying the equipment?

A $101 **B** $206 **C** $2001 **D** $2206

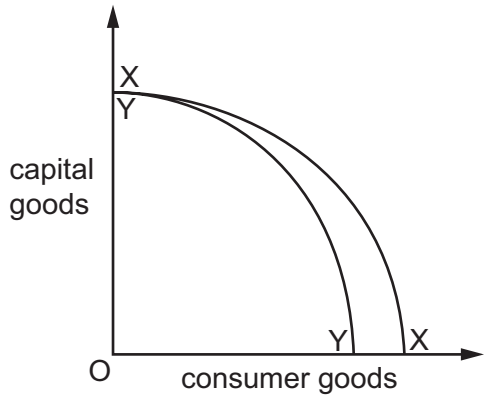
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3 The diagram shows the production possibility curve XX of an economy that produces both consumer goods and capital goods.

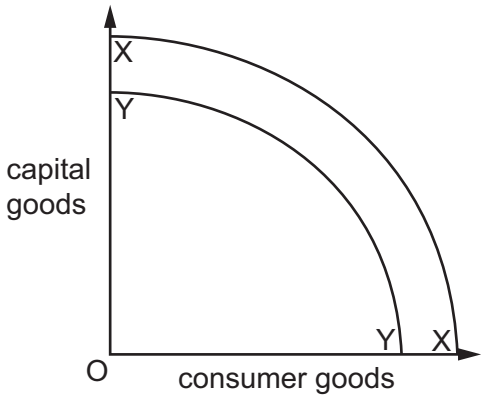


If the economy moves from point M to point N, which diagram represents the most likely position of the production possibility curve YY in the future?

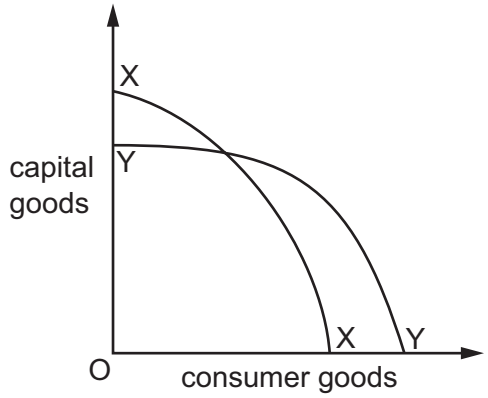
A



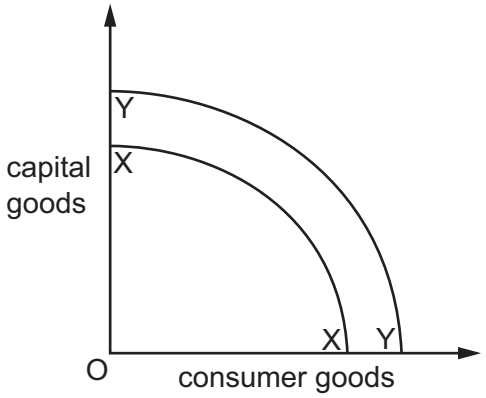
B



C



D



4 Arfan and his brother Ben own and run a fishing business together. They have one boat and on the days when they fish they employ Cephas and Dipak. They sell the fish to the owner of a local shop.

Which row correctly identifies the factors of production involved?

	land	labour	capital	enterprise
A	shop	Arfan and Ben	money paid for the fish	shop owner
B	shop	Cephas and Dipak	boat	Arfan
C	the fish	Ben	money paid for the fish	shop owner
D	the fish	Cephas and Dipak	boat	Arfan and Ben

5 The market price of a product rose from $8 to $10 and as a result the market demand fell from 20 000 to 8000 a week.

Consumer X's demand declined from 30 to 24 and consumer Y's demand fell from 100 to 60 a week.

What can be concluded from this information?

A Consumer X's demand for the product was more elastic than the market demand.

B Consumer X's percentage share of the market increased.

C Producer's total profit fell.

D Producer's total revenue rose.

6 A government wishes to impose a tax on a good so that the producer and not the consumer pays most of the tax increase.

Which level of price elasticity of demand would it be best for the good to have to achieve this aim?

A price elasticity of demand is elastic

B price elasticity of demand is inelastic

C price elasticity of demand is perfectly inelastic

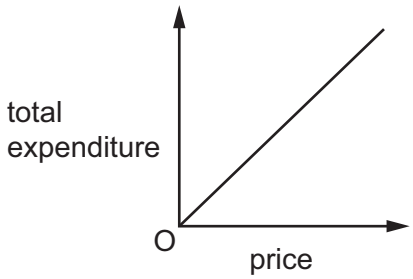
D price elasticity of demand is unitary

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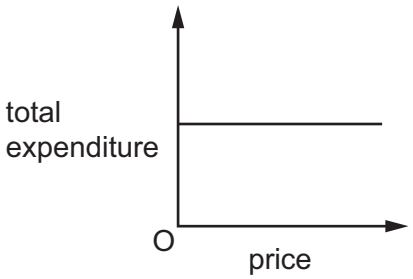
7 The demand for a commodity has unitary price elasticity.

Which diagram shows the relationship between total expenditure on the commodity and its price?

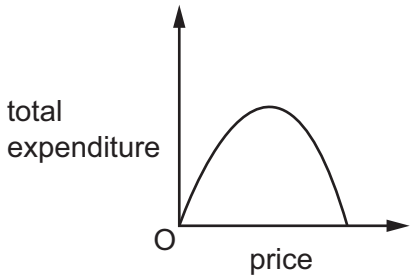
A



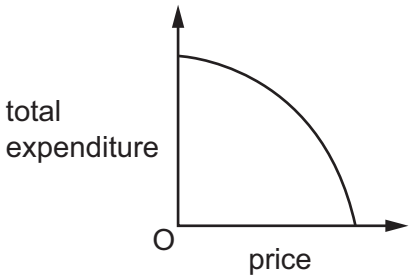
B



C



D



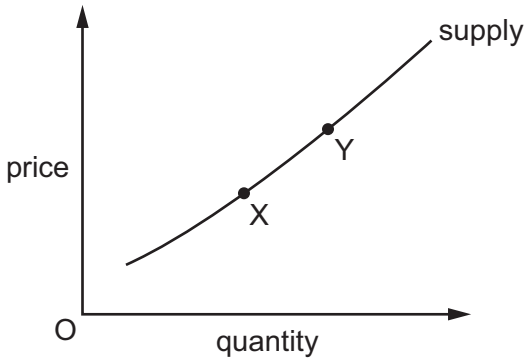
8 The price of good X rises by 10%. As a result, the demand for a substitute good Y rises by 20%.

What is the cross-elasticity of demand for good Y with respect to the price of good X?

A +2 **B** +0.5 **C** –0.5 **D** –2

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9 The diagram shows the supply curve of coffee in an economy.



The market equilibrium is initially at point X, but a change moves it to point Y.

What might explain this?

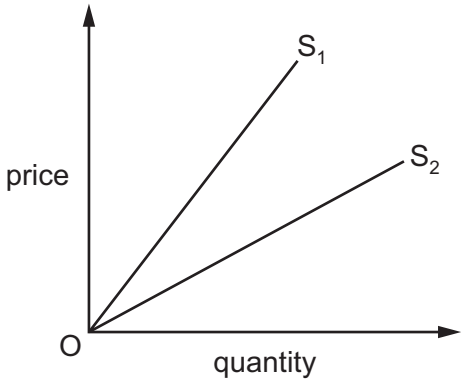
A an increase in wages paid by producers of coffee

B a switch in consumer tastes from coffee to tea

C an increase in the price of tea

D a tax imposed on coffee producers

10 In the diagram OS_1 and OS_2 are two straight-line supply curves.



As price increases, the elasticity of supply

A decreases along both OS_1 and OS_2.

B increases less rapidly along OS_1 than along OS_2.

C increases more rapidly along OS_1 than along OS_2.

D is constant along OS_1 and along OS_2.

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11 In which case will a given increase in the supply of a good cause the greatest fall in the price of the good?

A when the demand for the good is perfectly inelastic

B when the demand for the good is infinite

C when the good is an inferior good

D when the good's price elasticity of demand is positive

12 The table shows the maximum price a consumer would be willing to pay for successive cans of fruit juice.

cans	first	second	third	fourth	fifth
price ($)	14	10	6	4	3

The price of a can of fruit juice is $4 and, having bought three cans, the consumer decides to buy a fourth.

How does buying the fourth can affect his consumer surplus?

A It leaves it unchanged.

B It lowers it by $2.

C It raises it by $4.

D It raises it by $34.

13 Which combination of changes would enable the price mechanism to allocate resources more efficiently in a monopoly market?

	consumer sovereignty	producer sovereignty
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

14 A firm wishes to build a factory extension.

Permission is required from the government because the extension may increase

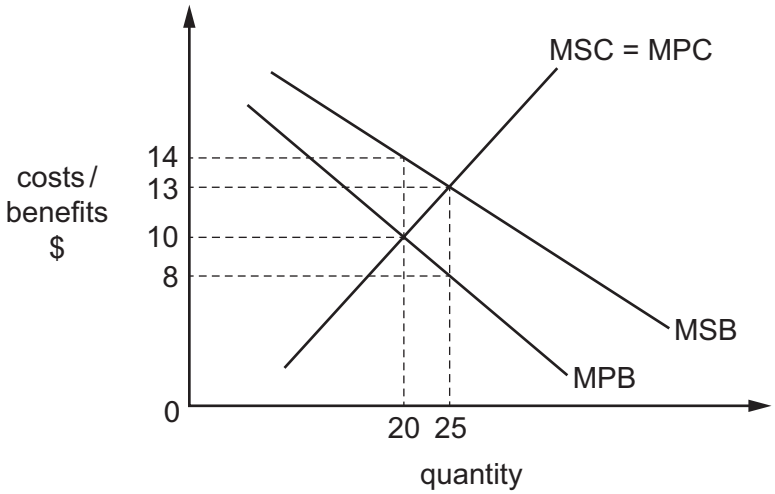
A comparative costs.

B external costs.

C opportunity costs.

D private costs.

15 The diagram shows the private and social costs and benefits that arise from the consumption and production of a good.



If there is no government intervention, what is the value of the marginal external benefit?

A $2 **B** $3 **C** $4 **D** $6

16 What can be provided only as a public good?

A road use

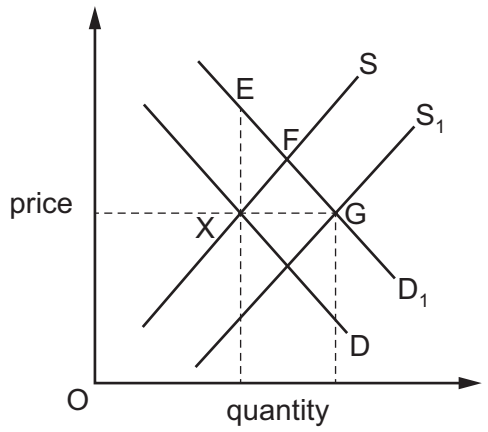
B security services

C street lighting

D TV broadcasting

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17 The diagram shows the demand for and supply of a foreign-made mobile (cell) phone. The initial position in the domestic market is X.



Importers increased the supply of the phone and there was an increase in demand for the phone. The government considered whether to protect domestic manufacturers with a limit on imports which would keep the supply at the initial quantity.

How would the price change between the new equilibrium without a limit on imports and the equilibrium with a limit on imports?

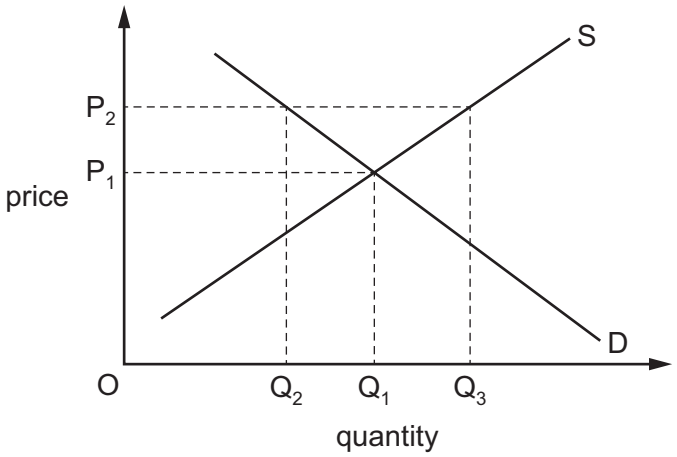
A a movement from E to F

B a movement from F to G

C a movement from G to E

D a movement from G to F

18 The government imposes a maximum price of P_2 on a product.



What will be the position after this action?

A an equilibrium with price P_1 and quantity Q_1

B an equilibrium with price P_2 and a quantity between Q_2 and Q_3

C an oversupply in the market by Q_2Q_3

D a shortage in the market of Q_2Q_3

19 What is an effect on a country of free trade?

A greater diversification of locally produced goods

B greater efficiency in the resource use

C greater independence in production

D greater security for local industries

20 What is meant by dumping in international trade?

A selling products in a foreign market at a price below cost

B selling products in a foreign market at a price below that of other firms

C selling products in a foreign market that are of a lower quality than those of domestic firms

D selling products in a foreign market that are of a lower quality than those of other foreign firms

21 As a result of a trade agreement, toys produced in Africa can be supplied to European markets. These toys are much cheaper than similar toys produced in Europe but are not of such good quality.

What will happen in Europe to expenditure on toys, employment in European toy companies and imports from Africa?

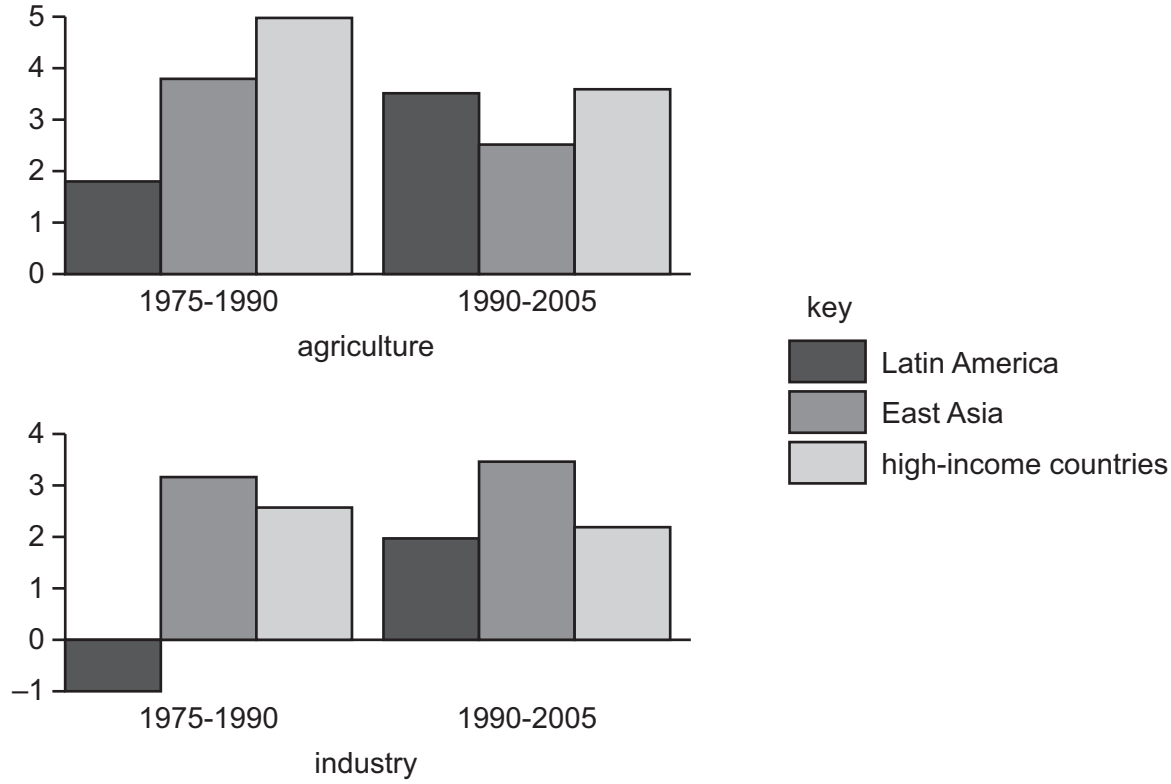
	expenditure	employment	imports
A	decrease	decrease	decrease
B	increase	decrease	uncertain
C	increase	uncertain	increase
D	uncertain	uncertain	increase

22 Which international transaction is correctly matched to the part of the balance of payments account in which it is recorded?

	transaction	part of account
A	the outflow of funds from national reserves to foreign residents	balancing item
B	the provision of banking services to foreign companies	financial section
C	the purchase of shares in foreign banks	capital section
D	the receipt of interest on loans to foreign companies	income section

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23 The diagram shows annual average labour productivity growth for three groups of countries during two time periods.



Which activity in which country group achieved the greatest improvement in its labour productivity growth rate between 1975-1990 and 1990-2005?

A agriculture in high-income countries

B agriculture in Latin America

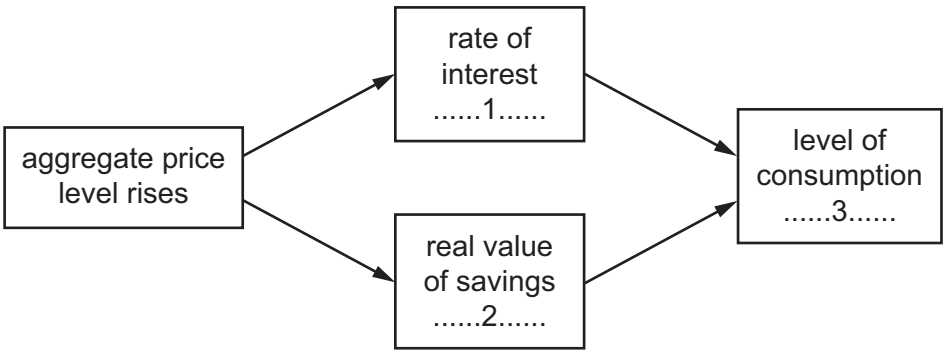
C industry in East Asia

D industry in Latin America

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[Turn over

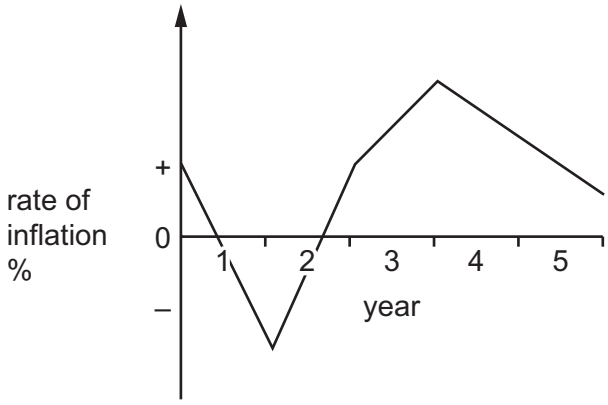
24 The diagram, which shows part of the process that causes the aggregate demand curve to slope downwards to the right, is incomplete.



Which words correctly complete gaps 1, 2 and 3?

	1	2	3
A	falls	falls	falls
B	falls	rises	rises
C	rises	falls	falls
D	rises	rises	falls

25 The graph shows the rate of inflation in a country in a 5 year period.



What can be concluded from the graph?

A The price level fell during two years.

B The price level was highest during year 4.

C The value of money fell for 5 years.

D The value of money rose in 1 year.

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26 What might explain an increase in the volume of a country's imports?

A an appreciation of the country's exchange rate

B an increase in the country's tariffs

C a recession in the country

D a rise in the country's rate of income tax

27 What is the most likely consequence of an increase in a country's balance of payments deficit?

A an increase in the foreign value of the currency of the country

B an increase in the level of income within the country

C a reduction in the quantity of money within the country

D a reduction in unemployment within the country

28 Which economic change might contribute to both cost-push and demand-pull inflation?

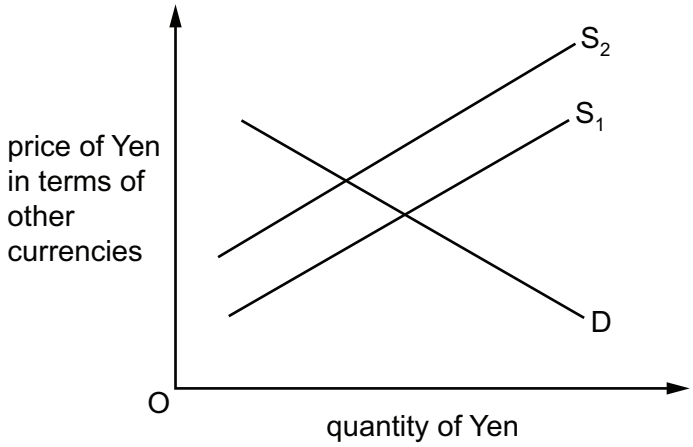
A a fall in the exchange rate

B a fall in the interest rate

C a rise in the productivity of industrial workers

D an improvement in the terms of trade

29 The diagram shows the market for Japanese Yen.



What could have caused the change in the supply of Yen from S_1 to S_2?

A a reduction in the level of international investment into Japan

B a reduction in the level of Japanese tariffs

C a reduction in the value of foreign goods imported into Japan

D a reduction in the value of Japanese goods exported

30 To reduce a deficit on the current account of the balance of payments, a government imposes a limit on the foreign exchange its people and firms can purchase.

Why may this increase the country's inflation rate?

A Firms may have to purchase more expensive, domestically-produced raw materials.

B Firms may have to sell more of their output on the domestic market.

C The change in demand for foreign currency on the foreign exchange market may lead to an appreciation in the exchange rate.

D The change in supply of the domestic currency on the foreign exchange market may reduce the money supply in the domestic economy.

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